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Malaysia Handbook

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INTRODUCTION

A small nation of less than 11 million inhabitants, Malaysia is of strategic importance because of its location on the Strait of Malacca—the commercial and maritime crossroads of Southeast Asia—and its economic role as the world's major source of natural rubber and tin. Although following an increasingly independent course in foreign affairs, its closest ties remain with the West, and it adheres to a strongly anti-Communist domestic policy. Efficient management of its economic resources has given Malaysia the highest standard of living in Southeast Asia aside from Singapore.

Nevertheless, Malaysia's great ethnic diversity poses a constant threat to national unity and stability. No single ethnic group in the country has a clear-cut majority: Malays make up just over 40% of the total population and Chinese slightly under 40%. Most of the remainder are Indians and Borneo tribespeople. Chinese resentment of the entrenched political power of the Malays and the latter's corresponding resentment of Chinese economic affluence are major, underlying sources of friction and instability. Among some of the Chinese, moreover, there is strong sympathy for Communist China, although Communism is legally banned throughout Malaysia. Another potential source of instability derives from the division of the country into two geographic segments, West and East Malaysia, separated by over 300 miles of open sea and each with its own historical background and ethnic make-up.

Malaysia was formed in September 1963, when the states of the independent Federation of Malaya, the semiautonomous State of Singapore, and the British Crown Colonies of Sarawak and North Borneo (Sabah) agreed to unite as a sovereign federation within the Commonwealth. (Singapore was expelled from Malaysia in August 1965 and became an independent republic.) The new nation of geographically divided territories, diverse ethnic communities, and disparate economies was immediately challenged by Sukarno's Indonesia. Sukarno condemned its establishment as a "neo-colonialist plot" and launched a military campaign, or "confrontation," against it. Indonesia's aggression was instrumental in uniting the people behind the government and in temporarily masking the deep cleavage in Malaysian society between the Malays and Chinese. But after hostilities with Indonesia ended in 1966, ethnic antagonisms resurfaced and culminated in the bloody postelection riots in the capital city of Kuala Lumpur in 1969. The price of restoring order was the reinforcement of Malay political supremacy and curtailing freedom of expression. As a result, communal discontents continue to smolder.

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Although Malaysia's firm national leadership has been a factor in keeping the country's communal problem in check, a more fundamental reason is the country's strong economy and the resultant widespread prosperity. Malaysia's economic well-being stems primarily from its large production of rubber and tin. In 1969, Malaysian natural rubber accounted for 48% of the world's sales and its tin for about 30%. Moreover, Malaysia has used its abundant land and manpower resources efficiently, and agricultural diversification has reduced the economy's dependence on rubber and tin, which are vulnerable to fluctuations in world market prices. Increases in rice production indicate that the country could become self-sufficient in this food staple by the mid-1970s. In recent years Malaysia has also become the world's primary exporter of palm oil and tropical hardwood logs. Government economic policies, as expressed in the First Malaysia Plan (1966-70) and the current Second Malaysia Plan (1971-75), reflect a continuing reliance on economic development for maintaining social and political stability.

Militarily, Malaysia is weak, with an army of only about 42,000 men, a small coastal navy, and a small air force. Its internal security forces, however, are well trained and have had considerable experience in dealing with insurgency. In the past, its defenses have been bolstered by Commonwealth forces, but the recent withdrawal of the bulk of the British forces from Malaysia and Singapore has left Malaysia in a vulnerable defense position. Although it has joined Australia, New Zealand, the UK and Singapore in a loose Five Power Defense Arrangement, it fears this arrangement will lack substance and is consequently taking steps to strengthen its own forces.

In the light of this new security situation, Malaysia has been reassessing its foreign policy. It is actively seeking a broader and more independent position in international affairs, is emphasizing its nonaligned status, and is calling for big power neutralization of Southeast Asia. Recognizing that in the long run it must develop a modus vivendi with its colossal northern neighbor, Communist China, Malaysia supported China's admission to the UN in the 1971 General Assembly vote. Although Malaysia has no diplomatic ties with the Communist countries of Asia, trade with Communist China is substantial. Malaysia is continuing to expand ties with Communist Europe, which has become a major purchaser of Malaysia's rubber. The country has also been active in promoting regional cooperation and took a leading role in 1967 in the formation of the Association of Southeast Asian Nations (ASEAN), which includes Indonesia, Thailand, the Philippines and Singapore. Malaysia's close relationship with the United Kingdom has evident durability, although a weakening of ties is inevitable as Malaysia pursues a more independent course and the British reduce their military commitments in the Far East.

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GEOGRAPHY

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I. GEOGRAPHY

Location

Malaysia consists of two noncontiguous geographic areas—West and East Malaysia—each including several offshore islands. West Malaysia occupies the southern portion of the Malay Peninsula. East Malaysia, consisting of the states of Sarawak and Sabah, extends along the northern third of the island of Borneo. The two segments are separated by 350 nautical miles of open sea. West Malaysia is flanked by the South China Sea on the west and the Strait of Malacca on the east and south. It shares a 314-mile northern border with Thailand, and its southern coast is connected to Singapore by a single causeway across the narrow Johore Strait. East Malaysia is bordered to its south by Indonesian Kalimantan (Borneo) and to the north by the South China and Sulu seas. In its north-central coastal area is located the tiny British protectorate of Brunei. Kuala Lumpur, Malaysia's capital, is within 200 nautical miles of Singapore and 700 miles of Saigon and Djakarta.

Area

Malaysia has an area of 128,400 square miles, somewhat larger than New Mexico. West Malaysia covers 50,700 square miles; Sarawak 48,300; and Sabah 29,400.

Climate

Lying in the same tropical latitudes, the two segments of Malaysia have similar climates. There are two monsoonal periods, the northeast monsoon (November through March) and the southwest monsoon (mid-May through September), divided by two brief transitional periods. Both monsoonal seasons are hot and wet, and differ principally by the direction of the wind. In West Malaysia annual mean rainfall is just over 100 inches, with the larger proportion occurring during the southwest monsoon. In East Malaysia mean annual rainfall is about 150 inches, the larger part occurring during the northeast period. Mean daily temperatures in the coastal areas of both parts of the country vary between minimums in the low 70s (F) and maximums in the low 90s; in the mountains temperatures are 10 to 20 degrees cooler.

Topography

Most of Malaysia is made up of heavily forested mountains. West Malaysia is characterized by two rugged mountain ranges running roughly

from north to south (maximum elevation about 7,200 feet), a small interior depression, narrow plains on the east and west coasts, and broader lowlands in the south. East Malaysia is dominated by an extensive mountain complex reaching a maximum elevation of 13,455 feet (Mt. Kinabalu in Sabah); spurs from the main range isolate small coastal plains, the largest being in western Sarawak. In both areas the coastal plains are mostly flat and poorly drained; vegetation is mainly tropical rain forests and swamps, with mangrove areas along many of the shores. Much of the western lowlands of West Malaysia has been cleared for agricultural cultivation, urban development, and transportation networks. Rivers are numerous, flowing precipitously in the mountains and meandering sluggishly in the lowlands.

The major topographic area, from a strategic viewpoint, is the heavily populated and agriculturally rich lowlands plain of the west coast of West Malaysia, extending from the Thai border to the Johore Strait. In this area, which is generally less than 50 miles wide, the road and rail networks are much more developed than elsewhere, facilitating cross-country movement. Off-road movement is made difficult in some areas by swamps, rice fields, and dense forests. East of these lowlands are the West Malaysia highlands, mostly rugged, forested mountains and hills, with sparse habitation and a poor transportation network. To the east and south of the highlands are largely swampy and jungle-covered coastal lowlands, also lacking in roads and thinly populated. In the highlands and in most of the eastern and southern lowlands inhospitable terrain would render cross-country movement and conventional military operations difficult. East Malaysia is predominantly mountainous and forest-covered, and much of the narrow and intermittent coastal lowlands are covered by swamps and mangrove. With the road and rail systems extremely limited, rivers constitute the main transportation arteries. As in the West Malaysian highlands and eastern lowlands, cross-country movement and conventional ground military operations would be severely hampered by the difficult terrain. However, the tropical vegetation in both areas provides good cover for irregular forces.

Both West and East Malaysia are generally unsuited for amphibious operations because of poor sea approaches and, except for the west coast of West Malaysia, the difficulty of inland mobility. In West Malaysia there are a few beaches immediately north of Butterworth and in the vicinity of Port Dickson that are suitable for large amphibious operations. Along the northern Borneo coast sizable amphibious landings are feasible only in the central part of the coast, from Miri east to around Tutong in Brunei.

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Natural resources

Malaysia is not endowed with a wide range of natural resources, but it has used its assets to good advantage. Most economic activity is concentrated in West Malaysia, where both land and climate favor tropical agriculture and there is an abundance of potentially productive land in relation to the population. Cultivation of this land has steadily increased, chiefly for rice production. Malaysia is expected to become self-sufficient in rice by the mid-1970s. Seventy percent of the land area is presently in primary tropical forests, and timber—the larger portion of it in East Malaysia—has been one of the country's most rapidly growing export industries. By far the most important mineral resource is tin, all of which is found in West Malaysia. Although known deposits are being depleted rather rapidly, Malaysia is maintaining its lead as a world producer. Iron ore is second in importance, but deposits are seriously depleted and production continues to decline. Other minerals include bauxite and copper. Energy resources are inadequate for domestic needs. Petroleum is exploited in Sarawak, and new discoveries have been made there. Crude oil production, however, still accounts for less than 20% of domestic needs.

Human resources

Malaysia's population is estimated to have reached 10,760,000 by mid-1971. By comparison with its immediate neighbors its population is small—less than one tenth of Indonesia's and one fourth of that of the Philippines or Thailand. The average density, 84 persons per square mile, is also low; the Philippines, for example, has 344. West Malaysia, however, has 85% of the total population and a population density of over eight times greater than that of East Malaysia, and three fourths of its population is concentrated within the narrow western lowlands.

The average annual population increase in Malaysia between 1960 and 1967 was 3.1%, one of the highest in the world. As in most of Asia this has been due to high birth rates and declining death rates. In West Malaysia improvements in education and a government family planning program have helped to push down the birth rate slightly in recent years. In East Malaysia the high birth rate and rate of population continue, but, since large areas of the country remain thinly settled, overpopulation does not appear to constitute a significant threat for the foreseeable future.

The inhabitants of Malaysia are divided among four major ethnic groups—Malays, Chinese, Indians, and Borneo tribespeople—each with its

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individual cultural characteristics. The largest element consists of the Malays, who regard themselves as an indigenous people although many of their forebears immigrated from Indonesia in recent generations. The Malays constitute less than half the population of West Malaysia and only a little more than 40% of the total population. They subscribe to the Islamic religion and speak Malay, the officially designated national language, as their primary tongue. Like other ethnic groups in Malaysia, however, the more educated Malays also speak English, and English is widely used in official and commercial circles.

A close second to the Malays in numbers are the Chinese, who make up almost 40% of the inhabitants of West Malaysia, one third of Sarawak's, and one fourth of Sabah's. More aggressive and business-oriented than the Malays, the Chinese dominate the country's economy. They are convinced that Malaysia's prosperity is largely a result of their enterprise and resent the political supremacy of the Malays.

The Indians, usually defined to embrace those whose origins are in what is now India and Pakistan as well as a small number of Ceylonese Tamils, constitute one tenth of the population of West Malaysia. Their number in East Malaysia is negligible. Many Indians are plantation laborers, government clerks, guards and policemen; some have achieved wealth in business and prominence in the professions.

Malaysia's indigenous tribal peoples compose less than 9% of the total population, but they are the predominant element in the East Malaysian states of Sarawak and Sabah. Most live in relatively isolated villages or longhouses and have an animistic religion. A sizable number, however, have been converted to Islam or Christianity, and the Muslim element tends to identify with the Malays culturally and politically.

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ECONOMIC
BACKGROUND

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II. ECONOMIC BACKGROUND

Growth rates and trends

Malaysia has one of the most prosperous, efficient, and well-run economies in the less developed world. Its per capita gross national product (GNP)—US\$370 in 1970—is topped in Southeast Asia only by Singapore and the small, oil-rich British protectorate of Brunei. GNP grew by 7% annually during 1959-70 in terms of current prices, this despite unfavorable rubber and tin prices and the suspension of trade with Indonesia during the 1963-66 "confrontation" period. Agriculture, by far the largest sector, experienced dynamic changes during the 1960s, when crop production rose by 6% annually. Although rubber remains the leading crop, its share of the agricultural output has declined as a result of lower world market prices and sharp increases in the production of other crops, especially palm oil and timber. There has also been a rapid growth in manufacturing in West Malaysia—9.5% annually in the 1960s—but this rise came from a small base and has represented mostly production for domestic use. Tin mining during this period increased less dramatically, in part as a result of international quota restrictions, but remains second to rubber as a source of foreign exchange.

Income distribution

As elsewhere in Southeast Asia there is a considerable discrepancy in Malaysia in income between the economic elite—mostly Chinese—and the peasantry, which is predominantly Malay. Although the rural Malays are more prosperous than their counterparts in most of Asia, their resentment of Chinese affluence has far-reaching social and political implications.

An official 1971 Malaysian study divides the working population of West Malaysia into five broad sectors—modern urban, modern rural, government, traditional urban, and traditional rural. The first of these is classified as having a "high" level of income, the next two as "medium," and the final two as "low." The high-income recipients, including those employed in technically advanced manufacturing and commerce and in certain professional services, have incomes about 1 1/2 to 2 times those at the medium level and 3 to 4 times those at the low level. About 60% of the workers, including smallholder rubber producers, padi (rice) farmers, small artisans, and others lacking special training or capital equipment, are in low income sectors. Since the major portion of working Malays are located in the traditional rural sector and a substantial proportion of non-Malays (Chinese and Indians) are in the modern urban and rural sectors, Malay incomes are by and large substantially lower than non-Malay incomes.

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The pattern of ownership of wealth and means of production reflects economic imbalances along racial lines. Padi farms are practically all Malay-owned, and many are cultivated by Malay tenant farmers. Of the land devoted to rubber, the prime income-producing crop, however, only 37% is Malay-owned; 42% is owned by non-Malays and 21% by foreigners, mostly British. The rubber estates, which are considerably more productive than smallholder rubber areas, are owned half by non-Malays and half by foreigners. Most other large agricultural estates are also owned by Chinese or foreigners.

Sectors of the economy

Agriculture, including forestry and fishing, is the mainstay of the economy. It accounts for about 30% of the gross domestic product, employs over half the active labor force, and produced two thirds of all exports. Rubber remains the leading crop, despite its decline in the share of total agricultural output from about one half in 1960 to one third in 1969. This proportional loss was primarily the result of increased production of other products, especially palm oil (16% annually during the 1960s) and hardwood logs, mostly from Sabah (13% annually). Malaysia now leads the world in the export of these two products. Rice production has also increased substantially; if this increase continues, Malaysia could become self-sufficient in this staple by the mid-1970s.

Government policies to promote growth and diversification in the manufacturing sector have achieved some measure of success. In West Malaysia, where 85% of industry is concentrated, the manufacturing sector grew at an average annual rate of 9.5% during the 1970s and increased its share of West Malaysia's gross domestic product from less than 9% to 12%. Moreover, there has been a marked shift from industries processing traditional exports, such as rubber, in favor of those which produce import-substituting goods, such as textiles and metal products. In terms of the value of output and manpower employed, however, processing of estate-type crops remains a main industry, ranking about the same as chemicals and wood products and slightly behind food processing. Textiles are among the more recently established industries of growing importance. The bulk of manufacturing enterprises still consist of small firms employing less than ten persons. Manufacturing is dominated by local Chinese in terms of both employment and ownership.

Mining constitutes a major economic sector, accounting in 1969 for 6% of gross domestic product and 20% of exports. Malaysia leads the world not

only in mining of tin ores but also in producing and exporting tin metal. In 1969 it accounted for about 30% of world tin production—and over 40% of the production of the non-Communist countries. Its output is double that of either Bolivia or Communist China, the second and third largest tin producers. Output of iron ore, Malaysia's second major mineral resource, fell from a high of 7.4 million metric tons in 1963 to 5.2 million tons in 1969. Relying on imported materials, Malaysia's small domestic iron and steel industry has nevertheless been growing fairly rapidly. The only other minerals of some commercial importance are bauxite and copper.

Transportation and telecommunications

The transportation systems of West Malaysia are the best in Southeast Asia. The principal shortcomings are sparseness of facilities along the east coast, lack of alternate routes, and lack of sufficient east-west connections.

Rail lines are the prime means of long-distance transportation, connecting almost all important centers and carrying most of the freight. The highway system, more extensive than the rail system, is used mainly to feed the rail lines, although long-haul highway transport is increasing. Inland waterways carry only a small proportion of the traffic, although they are the primary means of transport on the eastern side of the peninsula.

In East Malaysia transportation facilities are sparse and, in places, primitive. They are being improved but are still generally inadequate for the growing economy. Rivers are the principal, and in some areas the only, means of transportation. The single public railway, located in Sabah, and the highways in both Sarawak and Sabah are in most cases limited to connecting the ports with the productive hinterland. Trails provide the only access to many places in the interior.

The government's Malayan Railway Administration, under the Ministry of Transport, runs a network of 1,110 miles of meter-gage rail lines in West Malaysia and Singapore. All lines are single track except for eight miles of double track. East Malaysia has only 96 miles of single track, located entirely in Sabah and run by the Sabah State Railways. This line is the only railway on the entire island of Borneo aside from a few miles of track operated by and for private, commercial companies. In the West Malaysia - Singapore area the main rail line extends north from Singapore to Gemas, where it is divided into two routes extending through the interior to international connections with the Thailand network. The western route connects the capital city of Kuala Lumpur with all major west coast towns except Georgetown on

Penang Island, which is reached by ferry from Butterworth, and joins the Thai system at Padang Besar. The eastern route, which extends through Pahang and Kelantan States, has a branch to Tumpat on the northeast coast and joins the Thai system at Sungai Kolok. In Sabah the rail line runs from Kota Kinabalu through Beaufort to Tenom and Melalap. Service in both areas is good by Southeast Asian standards, although the tropical weather and vegetation cause continuing maintenance problems; heavy rains cause frequent washouts that disrupt service for days.

West Malaysia has a well-developed road network of some 10,500 miles. About 8,925 miles are hard-surfaced; 1,150 miles are gravel or crushed rock; and 425 miles are earth roads. The main trunk road, which is entirely bituminous, extends about 560 miles from Johore Strait in the south to the Thai border and connects the principal cities and towns along the west coast. A second principal road is a hard-surface, cross-peninsula highway from Port Swettenham on the west coast to Kuantan on the east. Another main road extends from Kuantan north to Kota Bharu.

East Malaysia has a much more limited road network. It is about 3,140 miles in length, of which only 520 miles are bituminous, and is principally limited to serving major towns and their environs. The 287-mile Kuching-Sibu road was opened in 1967, however, and there are plans to build branches from this road.

Inland waterways play the major role in transportation in East Malaysia, but are of only secondary significance in West Malaysia. Navigable waterways in the peninsula total 1,985 miles. Coastal vessels with drafts of up to 9 feet can navigate the west coast rivers for 10 to 50 miles, and native craft can ascend somewhat farther. On the east coast heavy seas and sandbars limit entry at the river mouths to shallow-draft barges and lighters; native craft, however, ascend far upstream. East Malaysia's navigable waterways total 2,540 miles (1,565 miles in Sarawak and 975 in Sabah). Small coastal vessels and lighters can enter some river mouths at high tide and navigate moderate distances; launches and native craft penetrate long distances into the interior. Sarawak's two largest towns, Kuching and Sibu, are bustling inland waterway ports. Malaysia, East Malaysia, in particular, has a sizable inland waterway fleet, but statistics on numbers and tonnages are sparse. In East Malaysia the rivers are the principal carriers of timber, which is lashed into large rafts and towed.

As of early 1970, Malaysia's seaborne merchant fleet included only 11 ships of 1,000 gross register tons and over; the bulk of Malaysia's foreign

trade consequently must depend on foreign shipping. Since there is no domestic capacity for constructing large vessels, all of Malaysia's ocean-going merchant ships are purchased abroad. In late 1970, Japanese shipyards were awarded contracts for eight ships of over 1,000 GRT, delivery to be made during 1971-75. The general operating areas of Malaysia's ocean-going fleet are Singapore, Indonesia, Australia, Hong Kong, Japan, and the Persian Gulf. There are, in addition, some 70 registered ships of 100 to 999 tons operating in coastal and nearseas trade and many more minor vessels, including about 25,000 fishing vessels.

Malaysia has 7 major and 17 minor ports. Major ports include three in West Malaysia (Penang, Port Swettenham, and Port Dickson) and four in East Malaysia (Kuching, Kota Kinabalu, Sandakan, and Victoria). Facilities are inadequate for Malaysia's thriving economy, and considerable amounts of cargo continue to be handled through Singapore.

Kuala Lumpur International Airport is a pivotal point of global air traffic in Southeast Asia; its 11,400-foot runway is one of the longest in Southeast Asia. Kota Kinabalu, Kuching, Labuan, and Penang are secondary civil airfields. Twenty international air carriers, including AEROFLOT and the Czechoslovakian airline, service Kuala Lumpur International. The only scheduled Malaysian air carrier is the Malaysia-Singapore Airlines, which is jointly controlled by the governments of Malaysia and Singapore. With a fleet of 21 major transport aircraft, including Boeing 707s, MSA serves 33 cities and towns within Malaysia and has flights to Hong Kong, Australia, Indonesia, Thailand, Ceylon, India, the Philippines, Japan, and Nationalist China. Malaysia also has 3 nonscheduled charter companies.

Malaysia's telecommunication facilities, along with those of Singapore to which they are closely linked, are the most modern and provide the best service in Southeast Asia. The country's telephone service is almost completely automated and connects the principal inhabited areas. As of early 1970 there were some 168,000 telephones, almost 16 per 1,000 persons. The majority of telephone channels are handled by microwave radio-relay; only a small percentage are by open-wire lines. Fourteen AM radiobroadcasting stations and one FM station provide effective coverage to almost 80% of the country's population. There are some 528,000 receiving sets. In recent years distribution of transistor sets to remote villages has greatly extended the listening audience. The TV network is limited to the west coast of West Malaysia, where there are eight stations, including a main station at Kuala Lumpur. Malaysia has some 130,000 TV receivers.

Government economic policy and financial system

Malaysia is essentially a free enterprise economy. The government confines its role to fiscal and monetary policy, welfare and social services,

infrastructure development, research and promotional activities, running the railways and communication services, and control (with Singapore) of the principal airline. The government is also deeply involved in land clearance and resettlement schemes. Malaysia's international trade and payments systems are largely unrestricted.

The government's industrialization drive, a principal aspect of its economic policy, is aimed at building up domestic industry so as to reduce dependence on imports. In promoting this drive the government has made available to industry tax incentives for new investment, import tariffs, and quotas for nascent industries, suitable sites for industrial estates, vocational training for the unskilled, and new sources of industrial finance. Another major government objective is agricultural diversification to reduce the country's heavy dependence on rubber exports and food imports. This program has met with considerable success as demonstrated by the rapid advances in production of palm oil, timber, and rice.

Development planning was initiated in Malaya (now West Malaysia) in the mid-1950s, and in 1966 a nationwide First Malaysia Plan was launched. This plan had as its goal a 4.8% annual growth in GNP, but actual performance for 1966-70 exceeded this goal by a substantial margin, averaging 6.4%.

The current Second Malaysia Plan (1971-75) is heavily committed to a "New Economic Policy," whose principal goal is to raise the employment and income levels of the Malays. Efforts are being made by government agencies to increase Malay participation in agriculture, mining, and industry. Methods used include the resettlement of smallholders to new lands, the provision of low-interest loans, the building of new processing and marketing facilities, a support price for rice, and preferential employment policies. The last has often been difficult to enforce since relatively few Malay workers are as well trained or educated as the Chinese.

The government follows conservative fiscal policies. Although government spending is relatively high for a less developed country, high revenues and good fiscal management have resulted in only a small budget deficit. Roughly 80% of current revenue comes from taxes, primarily import duties, corporate income taxes, and export and excise duties. The largest category of federal budgetary spending has traditionally been education and health, which take up roughly one quarter of the budget. In reaction to the 1969 racial rioting and the reduction in the British military presence, however, defense spending in 1969 rose to more than 25% of total expenditures.

Malaysia's monetary unit is the Malaysian dollar, which has an exchange rate of M\$3.06 to US\$1.00. Malaysia's central bank (Bank Negara) acts as

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banker and financial adviser to the government and supervises the commercial banks.

Foreign trade

Malaysia is heavily dependent on foreign trade for its economic well-being. Exports in 1970 totaled US\$1.7 billion, an amount surpassed in the less developed world by only a few oil exporting countries. Despite increases in locally produced import substitution goods, the level of imports also remains high, albeit substantially lower than exports. In 1970 imports were valued at US\$1.4 billion, leaving an export surplus of about US\$300 million. With its export earnings it has managed to avoid most foreign exchange restrictions and to function without substantial foreign aid.

Rubber and tin remain the principal export products. Despite a sharp decline in the market price of rubber from 1960 to 1968, the volume of rubber exports rose so rapidly that the price fall was offset. Exports of timber and palm oil rose sharply during the same period. In 1970 rubber, tin, and timber constituted respectively 34, 20, and 16 percent of the value of Malaysia's exports. Imports consist primarily of manufactured goods, machinery, transportation equipment, and foodstuffs.

Japan is Malaysia's major trading partner, accounting in 1969 for 20% of its exports and 16% of imports; its lead, moreover, is increasing. Singapore is second, but it acts primarily as a transshipment point and processor rather than user or supplier. Next in importance is the US, Malaysia's principal customer for rubber. Imports from the UK, the fourth ranking trade partner, have declined markedly in recent years. The USSR and Eastern Europe closely rival the US as a market for Malaysian rubber. Communist China also buys substantial quantities of rubber, and is a major source of food imports and inexpensive consumer goods.

Balance of payments

Malaysia's healthy trade surplus, together with a net inflow of long-term capital, has normally led to a favorable balance of payments. Deficits have been incurred primarily in services and private remittances. In 1969 an export boom resulted in a balance-of-payments surplus exceeding US\$170 million. However, the surplus declined sharply to US\$20 million in 1970, largely as a result of an upsurge in imports.

Foreign aid

As one of the more prosperous nations in the less developed world, Malaysia has not had to depend heavily on foreign grants and loans. The UK

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has been the principal source of aid, followed by the World Bank and the US. After independence in 1957, Malaya (Malaysia after 1963) received substantial grant assistance from the UK to defray expenses stemming from the Communist insurgency, to help in its economic development plans, and, later, to assist in meeting costs incurred during Indonesian "confrontation." After 1965 most UK assistance shifted to loans. When the UK announced its military withdrawal plans in early 1968, it agreed to provide US\$60 million in mitigatory assistance for 1968-73, three fourths of it in the form of loans and the rest in grants. UK grant and loan assistance since independence has totaled over US\$300 million. World Bank aid, virtually all of it in the form of development loans, has amounted to over US\$250 million. Official US economic assistance has totaled almost US\$80 million.

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POLITICAL
SITUATION
AND TRENDS

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III. POLITICAL SITUATION AND TRENDS

Historical summary

The Malays and other indigenous peoples of Malaysia are descendants of Asian migrants who moved down in successive waves into the Malay Peninsula and neighboring Indonesia during prehistoric times. From at least the fourth century A.D. these people were influenced culturally by Hinduism and Buddhism, which were introduced by traders and travelers from the Indian subcontinent. In the Malay Peninsula these cultural overlays gave way to Islam during the 15th century, when the Muslim Sultanate of Malacca brought the peninsula and a large part of Sumatra under its domination. In the following century the Sultanate of Brunei established Islam as the dominant cultural influence in northern Borneo also.

European influence dates from the conquest of the city of Malacca by the Portuguese in 1511. With the decline of the Malacca Sultanate the rest of the peninsula was fragmented into a number of weak Malay states. Bitter colonial rivalry in the area was subsequently highlighted by the Dutch ouster of the Portuguese from Malacca in 1641 and by the British acquisition of the island of Penang in 1786 and of Singapore in 1819. With the British take-over of Malacca in 1824 and their consolidation of Penang, Malacca and Singapore as the Straits Settlements two years later, the UK was firmly established as the sole colonial power in Malaya. During the latter decades of the 19th century and the early years of the 20th century, Britain consolidated its power in the peninsula. A series of treaties were signed with the sultans of the Malay states that obligated these states to accept British advice in all matters except Malay religion and custom.

The British gained their first significant foothold in northern Borneo—the area now encompassing East Malaysia and the tiny British protectorate of Brunei in 1841, when the Sultan of Brunei ceded a large part of Sarawak to the "White Rajah," James Brooke. In subsequent years all of Sarawak was turned over to the Brooke family, which ruled the state until the Japanese occupation during World War II. In 1946, Sarawak was ceded to the British crown. In similar fashion North Borneo, or Sabah, was ceded to private individuals in 1877-78. In 1881 the concession was acquired by the British North Borneo Company, and in 1946 Sabah, like Sarawak, became a British crown colony.

The second half of the 19th century and the early years of the present century saw a radical transformation of Malaysia's economy and society. The

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rapid expansion of the tin-mining industry and rubber plantations resulted in a massive influx of Chinese and Indian laborers and entrepreneurs. By 1931 the combined population of these migrant groups outnumbered that of the native Malays. Sarawak and Sabah experienced a similar inflow of Chinese, but few Indians moved to these remote areas. Although the grafting of these large and culturally disparate population groups has been the root cause of much social and political instability, the dynamism of the immigrants has been in great measure responsible for Malaysia's extraordinary economic growth and vitality.

Malaya, unlike neighboring Indonesia, was not seriously troubled by anticolonialist agitation in the pre - World War II period, mainly because the Malays, Chinese, and Indians there were content to depend upon the British raj to protect their respective interests and to maintain stability. The Japanese wartime occupation, however, resulted in a serious loss of face for the British and helped stimulate both nationalist and Communist agitation in the postwar period. In 1946 the British brought the hitherto loosely organized Malay states with the Straits Settlements (less Singapore, which remained a crown colony) into a centralized Malayan Union. The Malays vehemently opposed this administrative restructuring, which weakened the position of the Malay sultans and increased the rights of the Chinese and Indians, so the British were forced to abandon the arrangement. To replace it, the British established the Federation of Malaya in 1948, under which the Malay states regained some measure of autonomy and the political primacy of the Malays was restored.

In mid-1948 the newly formed Federation of Malaya was threatened by Communist insurgency. For several years the Communists engaged large numbers of British and local Malayan military forces. It was not until late 1954 that the backbone of the insurgency was broken, and the "Emergency," as the insurgency period was called, was not officially terminated until 1960. After their defeat several hundred hard-core Communists, virtually all of them Chinese, fled to jungle sanctuaries on the Thai side of the border where they have since managed to recruit and train new followers.

As the Communist threat faded, the British moved ahead with plans for Malaya's independence. Elections for a federal legislature in 1955 resulted in a sweeping victory for the Alliance, a coalition of three moderate, anti-Communist communal parties representing the Malays, Chinese, and Indians. Reassured by this victory, the British, after extended negotiations with Alliance leaders, granted the Federation its independence on 31 August 1957. Close ties between the UK and Malaya were ensured, however, by

Malaya's membership in the Commonwealth, the continued presence of extensive British economic interests, and the signing of an Anglo-Malayan Defense Agreement (AMDA) which provided for the indefinite retention of British military forces on Malayan soil.

The concept of a merger of Malaya with Singapore and the British Borneo territories into an independent nation had received desultory attention from time to time after World War II, but the idea did not attract serious consideration until Malaya's prime minister, Tunku Abdul Rahman, advocated it publicly in May 1961. Then the "Malaysia concept" became the subject of extended negotiations between the British and the other governments concerned. In July 1963, a Malaysia Agreement was signed by representatives of the UK, Malaya, Singapore, Sarawak, and Sabah. Although also invited, Brunei refused to participate and has since remained a self-governing British protectorate. The formal inauguration of Malaysia took place on 16 September 1963.

Following merger, relations between the federal government and the predominantly Chinese state of Singapore, under the aggressive leadership of Lee Kuan Yew, were marked by increasing animosity. The major point of contention was the active involvement of Lee's Peoples Action Party in national politics, a development which Rahman viewed as a challenge to the Alliance's pre-eminence. This friction culminated in the expulsion of Singapore from Malaysia in August 1965 and its establishment as a separate, independent republic.

The "Malaysia concept" was vehemently attacked by Sukarno's Indonesia as a "neo-colonialist plot," and in April 1963 Indonesian military forces launched a campaign of military "confrontation" against the infant nation. The Indonesian campaign was poorly organized and executed, however and made little headway against the combined British and Malaysian defenses. Indonesian hostility abated after the unsuccessful Communist coup in that country on 1 October 1965 and the subsequent political demise of Sukarno. An agreement signed in August 1966 ended the "confrontation," and the two countries renewed diplomatic ties the following year.

With the termination of the Indonesian external threat the endemic racial and political antagonisms within Malaysian society—particularly between the politically dominant Malays and the economically affluent Chinese—came increasingly to the fore. These differences reached a critical stage following legislative elections in West Malaysia on 10 May 1969, when several predominantly Chinese opposition parties made unexpected gains at

the expense of the Alliance. Interpreting these gains as a possible threat to Malay political hegemony, and outraged by Chinese "victory" celebrations, Malay mobs in the capital city of Kuala Lumpur exploded in a frenzy of anti-Chinese rioting and pillage that resulted in at least 200 deaths. The government responded by declaring a state of national emergency. It suspended Parliament, forbade political debate, curtailed constitutional rights, and expanded its military and police, mostly with Malay personnel. During the ensuing period of emergency rule the government succeeded in maintaining an uneasy balance between chauvinistic Malay demands for further limitations on Chinese rights and Chinese warnings that such limitations would dangerously alienate the Chinese community. Although parliamentary rule was finally reinstated in February 1971, constitutional revisions enacted at that time reinforced the paramount political role of the Malays.

Structure and functioning of the political system

In its external appearance Malaysia has many of the familiar features of the British parliamentary system: a nonpolitical, royal head of state; a bicameral legislature, with the lower house elected by universal suffrage; a cabinet responsible to the legislature; a nonpolitical civil service; and an independent judiciary. A Malaysian revision is the selection of the monarch from and by his peers, the hereditary rulers of the Malay states, for a stated term of office. In practice, however, the political system differs from that of Western democracies by ensuring political hegemony of a single ethnic group—the Malays—and discouraging the development of a political opposition capable of unseating the government.

The Malaysian constitution was designed to give the federal government broad powers while at the same time reserving certain autonomous powers for the states. As an inducement to joining Malaysia, the East Malaysian states—Sarawak and Sabah—were given autonomous powers greater than those held by the states of West Malaysia. Nevertheless, the states have no role in amending the constitution, and most are dependent on the federal government for a significant portion of their budgets. Moreover, emergency powers granted the federal government by the constitution permit Kuala Lumpur to override state authority whenever it chooses.

Individual rights are also circumscribed. Freedom of speech, the press, and assembly are enumerated in the constitution, but they are not granted as inalienable rights which the courts are compelled to protect and can be abridged by laws whose constitutionality is not open to challenge. This was demonstrated by emergency legislation passed in mid-1970 making it an act

of sedition for anyone to question provisions of the constitution relating to Malay rights, the national language, the sovereignty of the Malay rulers, and citizenship. In March 1971, Parliament formally incorporated this restrictive legislation into the constitution.

Largely as a result of Malaya's bitter experience with Communist insurgency from 1948 to 1960, the constitution includes several special articles granting the federal government far-reaching powers to control subversion or internal dissidence. These articles provide that in case of an internal or external threat constitutional provisions encompassing individual liberties and state rights can be abrogated by either legislative or executive action.

The constitution also contains certain articles designed to safeguard the political predominance of the Malays over the Chinese. The Malays are given special preference with respect to obtaining government jobs, scholarships, and business licenses, and large areas of land are set aside as Malay reservations. The constitution also grants greater representation to rural than to urban areas, an arrangement that works to the detriment of the largely urban Chinese.

At the apex of the complicated structure of the federal government is the Conference of Rulers, composed of the heads of the 13 states of Malaysia. Nine of these are the hereditary rulers of the original Malay states and the remaining four are the appointed governors of Penang, Malacca, Sarawak, and Sabah. A Paramount Ruler, or king, is chosen by and from the nine rulers for a five-year term. The Paramount Ruler and the Conference of Rulers have few powers but provide a central symbol of the federal structure and a focus for loyalty.

The real locus of executive power is the prime minister and his cabinet. The prime minister is chosen from the lower house of Parliament and must have the support of the majority of its members. The ministers sit in Parliament and are required to defend their programs and policies in both houses. Since September 1970 the prime minister of Malaysia has been Abdul Razak, the former deputy prime minister who succeeded Abdul Rahman upon the latter's retirement.

Malaysia's bicameral Parliament consists of the Senate (Dewan Negara), or upper house, and the House of Representatives (Dewan Rakyat), or lower house. The House of Representatives consists of 144 members elected by universal suffrage for five-year terms; 104 are from West Malaysia, 16 from Sabah, and 24 from Sarawak. The present house will operate until February

1976, unless dissolved earlier. In addition to initiating and passing legislation, the house serves as a forum for debate of government policies. The Senate, which is composed of 58 appointed members, is little more than a rubber stamp for lower house legislation. The traditional immunity of members of parliament from legal action for their statements from the floor has been restricted since passage of the antisedition constitutional amendment in March 1971.

Federal judicial power is vested in a Federal Court, two subordinate High Courts (one covering West Malaysia and the other East Malaysia), and such lower courts as are provided by federal law. The Federal Court decides legal disputes between states or between the federal and state governments and may determine the validity of federal and state legislation. Appeals from the Federal Court can be made to the Paramount Ruler, who refers them to the Privy Council in the UK. The lower courts in West Malaysia consist of sessions courts and magistrates courts, with the latter responsible for less serious cases. Both have original jurisdiction in civil and criminal cases. In Sarawak and Sabah the lower courts include three classes of magistrates courts handling civil and criminal cases and native courts having jurisdiction over customary law.

The structure of the state governments closely resembles that of the federal government, with each state having its own constitution, head of state, executive council, and legislature. The nine former Malay states in West Malaysia have hereditary rulers as heads of state, while Penang, Malacca, Sabah, and Sarawak have governors. Like the Paramount Ruler, the heads of state have little real authority except as protectors of Malay customs and religion. Executive power in each state is vested in a Chief Minister and cabinet, or executive council, who are responsible to an elected, unicameral legislative assembly. Autonomous powers held by Sarawak and Sabah include, within specified limits, control over the educational system, native customs and law, and immigration. Partial fiscal autonomy is allowed through the right to impose sales taxes.

Political dynamics

Since Malaya's independence in 1957, the politics and government of that area—now West Malaysia—have been dominated by the Alliance, a coalition of three communal parties: the United Malay National Organization (UNMO); the Malaysian (ex-Malayan) Chinese Association (MCA), and the Malaysian (ex-Malayan) Indian Congress (MIC). Moderate, pragmatic, and firmly anti-Communist, the Alliance has garnered substantial majorities

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in every national election and currently controls all but two state assemblies. Following merger in 1963, comparable but less stable Alliance coalitions, composed of local parties, emerged in Sarawak and Sabah. These coalitions are affiliates of the West Malaysia Alliance, which dominates the Alliance organization and policies on the national level.

The Alliance's unchallenged domination of the political scene has been largely a result of its entrenched position prior to independence, its success in obtaining independence from the British, and its appeal to the broad middle ground of the body politic. Its key leaders—a handful of capable, British trained Malay elite—gave the coalition (at least until 1969) an image of fair play in communal relations. Supported by Chinese business interests, the Alliance has greater financial resources than its rivals. Fundamental to the Alliance's success—and to Malaysia's political cohesion—have been the country's prosperity, the unifying influence of the Communist insurgency between 1948 and 1960, and the Indonesian "confrontation" between 1963 and 1966.

After "confrontation" had ended, the Alliance's domination of the political scene began to weaken. In West Malaysia the Malay population, the base of the Alliance's power, voiced growing dissatisfaction with the even-handed approach of UMNO on communal issues—an approach which many interpreted as favoring the Chinese population and therefore responsible for the Malays' failure to make more rapid economic progress. Similarly, the majority of Chinese came to feel that the MCA had helped to perpetuate Malay political domination by being insufficiently militant in protecting Chinese rights. In the Borneo states, also, the ending of "confrontation" permitted the surfacing of underlying resentments. In Sarawak, the large, non-Muslim tribal population became dissatisfied with the Malay-Muslim orientation of the local Alliance regime and irritated by the proclivity of the Malay-led federal Alliance government to intervene arbitrarily in internal state matters. Although similar discontents are evident in Sabah, Chief Minister Tun Mustapha, head of the Sabah Alliance, has maintained an iron rule, and has successfully foiled the establishment of any organized opposition.

The shift in popular support away from the Alliance was brought into sharp relief by the results of the May 1969 elections in West Malaysia. The Alliance maintained a majority in the House of Representatives, but its losses—23 house seats and control of the Penang state assembly—were unexpectedly high. Opposition Malay and Chinese parties challenged the Alliance on both flanks. The leading Malay group received over 40% of the

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Malay vote, and Chinese-dominated parties won 14 of the 27 parliamentary seats formerly held by the MCA. Because of the subsequent riots and the imposition of emergency rule, elections in East Malaysia were postponed; when finally held in mid-1970, the results confirmed the weakened position of the Sarawak Alliance, which managed to retain office only with the help of a former opposition party. As anticipated, there was no real contest in Sabah, the Alliance winning every parliamentary seat, most without opposition.

Despite their gains in the 1969 election, the opposition parties of West Malaysia remain fragmented along communal and ideological lines and restrained by the antisedition legislation incorporated in the constitution in early 1971. The only significant Malay opposition group, the Islamic Party (Partai Islam) follows chauvinistic pro-Malay and anti-Chinese policies, draws its support principally from the largely rural eastern and northern states of the peninsula. In 1969 it received over 40% of the Malay vote. The largest Chinese opposition group, the left-leaning Democratic Action Party (DAP), won as many parliamentary seats in 1969 (13) as did the MCA. A third major opposition group, Peoples Movement (the Gerakan Rakyat), is also Chinese-dominated; unlike the DAP, however, it has some Indian and Malay support and is more moderate in its political orientation. The far left of the political spectrum is represented by the Communist-dominated Labor Party. In line with an increasingly militant Communist posture in recent years, the Labor Party boycotted the 1969 elections and has since closed down most of its branches, with some members joining the Communist underground.

In East Malaysia opposition to the Alliance is only of significance in Sarawak, where the Sarawak National Party, a primarily non-Muslim tribal party, won a respectable 24% of the vote in 1970. Another opposition group, the Sarawak United Peoples Party, which is largely composed of Chinese, made an equally substantial showing in 1949. Subsequently, however, after being guaranteed a role in the administration, the party threw its support behind the Alliance. As a result, there is considerable disaffection among the strongly leftist rank and file of the party, and its future remains questionable. In Sabah there is no organized opposition, and Chief Minister Tun Mustapha's control of the power apparatus is so complete that no significant threat to his regime seems likely for the foreseeable future.

Election procedures in Malaysia are much like those in Western countries. An election commission delineates electoral districts and administers elections; nominations are made at party conventions; all citizens of 21 years of age or over have the franchise; parliamentary elections are by direct vote

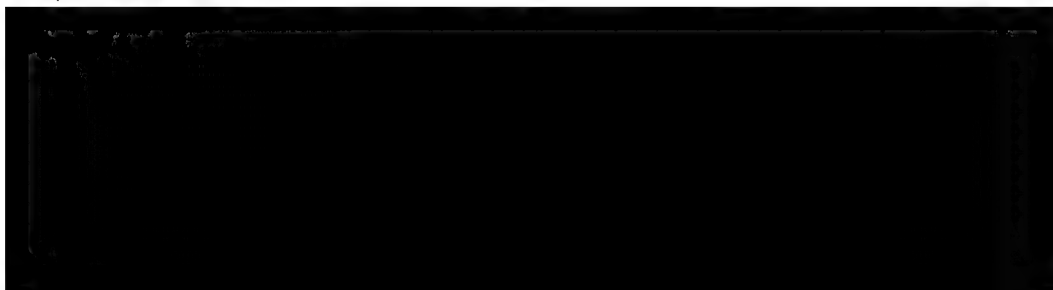
in single member constituencies. But the electoral system is weighted against the largely urban Chinese population, with variations in population up to 50% between urban and rural constituencies. In West Malaysia, elections are held in one day, whereas in Sarawak and Sabah they are staggered over two or three weeks to allow mobile election teams to travel into the remote hinterlands.

Security system—police, security and intelligence

The principal internal security force is the Royal Malaysian Police (RMP), an effective, professional organization modeled along British lines. In mid-1971, RMP strength totaled approximately 40,000, including intelligence and paramilitary components. About 85% of the RMP is deployed in West Malaysia. Although the rank and file is mostly Malay, non-Malays predominate in the officer corps. Since the 1969 riots, however, many of the Chinese officers have been replaced by Malays, with a corresponding decline in morale among the Chinese and an over-all loss in efficiency. Since a reorganization early in 1970, Malays have held the six top positions in the RMP.

Police powers are extensive, including the authority to detain suspects 30 days before formal charges are made. Severe penalties are imposed for infractions such as illegal demonstrations and the possession of weapons. Gun permits are severely limited.

The RMP's paramilitary arm, the Police Field Force, in mid-1971 numbered about 12,400, organized into 14 battalions and two companies. The PFF operates closely with the military in operations against the Communist guerrillas in both West and East Malaysia. In Sarawak a separate organization, the 1,200-man Border Scouts, composed mainly of native tribesmen, has carried out deep jungle patrols in support of the PFF. To assist in maintaining security in the urban areas the RMP has under its jurisdiction a riot control force, known as Federal Reserve Units, of some 1,300 men.



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SUBVERSION

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IV. SUBVERSION

Communist subversion and insurgency

Communism in Malaysia is represented by two movements—the Communist Party of Malaya (CPM) in West Malaysia and the Sarawak Communist Organization (SCO) in Sarawak. Although having similar characteristics and policies, the two have no known organizational ties. Both are Peking-oriented, and Communist China renders them limited propaganda support.

The Communist Party of Malaya had its origins during the 1920s when Communist agents from China established a foothold among the Chinese population of Malaya and Singapore. Recruiting efforts among the Malays and Indians were, and still remain, relatively unsuccessful. In World War II the party's prestige received a boost as a result of its anti-Japanese guerrilla operations, which the British supported with arms and training. The Communists played no decisive role in the Japanese defeat, however.

Directly after the war the CPM, operating as a legal entity, gained control over much of Malaya's organized labor movement and attempted to expand its influence through strikes and political action, sometimes in association with non-Communist groups. Failing to make much headway through these "united front" tactics, however, and following a shift in international Communist policy in early 1948 in favor of "revolutionary struggle," the party increasingly resorted to violence and terror, with the result that the government banned the party in mid-1968 and declared a state of emergency. The outlawed CPM members fled to jungle bases where they organized an army of some 5-6,000 guerrillas—called the Communist Terrorist Organization by the British—and launched a wide-ranging insurgent campaign. The British quickly reinforced their military forces, however, and the backbone of the insurgency was broken by late 1954. The main factors behind the Communist defeat were their inability to gain adherents from among the non-Chinese population and their lack of significant outside support. Hard-core CTO members, led by CPM Secretary General Chen Ping, retreated northward to jungle camps on the Thai side of the border, and remnants within Malaya were gradually eliminated. In mid-1960 the "emergency," as the period of insurgency was generally referred to, was officially terminated.

During the early and mid-1960s the CPM apparatus in the thinly protected Thai border provinces was mainly preoccupied with regrouping its

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forces and training new recruits—mostly Chinese, but including some Malays. In the late 1960s the Communists adopted more aggressive tactics and renewed operations south of the border on a small scale; these activities have included ambushes of Malaysian security units and well-executed sabotage operations. By mid-1971 ten CTO bases, manned by some 200 to 300 guerrillas, were reportedly established on Malaysian soil. The total strength of the armed Communist guerrillas straddling the Thai-Malaysia border is estimated at about 1,500. There are, in addition, some 2,500 supporters in a youth auxiliary in southern Thailand, several hundred Communist activists involved in covert political operations in West Malaysia, and unknown numbers of sympathizers in Malaysian political parties and among the students and youth. The principal Communist legal front has been the Labor Party, a predominantly Chinese party which received over 200,000 votes in elections in 1964. In line with the Communists' more militant tactics in recent years, the Labor Party withdrew its single member from the House of Representatives prior to the 1969 elections and called for an election boycott. But few voters responded, and the party subsequently closed down many of its branches. Some of its hard-core Communist backers have joined Communist units in the jungle.

Communist operations in Sarawak and Sabah date back to World War II when small, Communist-led Chinese units were active against the Japanese. After the war the British effectively quashed the Sabah movement and temporarily disrupted Communist activities in Sarawak. But the Communists renewed their organization activities during the early 1950s and in 1954 formed the Sarawak Liberation League, a small, elite group containing the top leadership of the movement. Other "mass" organizations were formed later: the Sarawak Advanced Youth Association, the Sarawak Farmers Association, and the North Kalimantan National Liberation League (NKNLL), which was created during the 1963-66 period as a political front to cooperate with Indonesia's "confrontation" forces. A Communist party of North Kalimantan was reportedly formed in mid-1969, but little has been heard of this organization, and it apparently has been given no official recognition by Peking. Malaysian authorities refer to the movement as the Sarawak Communist Organization (SCO).

During the period of hostilities between Malaysia and Indonesia many SCO adherents crossed into Indonesian Borneo (Kalimantan), where they were given some arms and training; a few were utilized by Indonesia in its "confrontation" operations. After the end of hostilities the SCO guerrilla units came under Indonesian attack and moved to more remote areas on the Indonesian side of the border. These units are divided into two organizations, the North Kalimantan People's Forces (PARAKU) and the Sarawak

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People's Guerrilla Forces (PGRS), with a combined estimated strength as of late 1971 of about 400. Since the late 1960s some of the units have engaged in small-scale insurgent activities in Sarawak. SCO activities on the "legal" political front have been carried out mainly through the Sarawak United Peoples Party, Sarawak's oldest party and one of its best organized. Although the SUPP's non-Communist leaders have eliminated many Communist cadre from the party's ranks since 1969 and now support the government, Communist influence on the branch level is believed to remain substantial.

Non-Communist subversion

Non-Communist subversive threats in West Malaysia have come largely from dissident politicians, most of them Malay extremists frustrated by lack of success at the polls and opposed to the relatively moderate communal policies of the government. During 1963-66 a number of these dissidents cooperated with the Indonesians. Since 1966 the more prominent extremists have disappeared from the political scene, some through arrest or exile. But Malay chauvinist politicians, including some associated with UNMO and others with the opposition Islamic Party, remain persistent thorns in the side of the government. Although not subversive in the sense of seeking the overthrow of the government, they could become disruptive elements should they conclude that the government is failing to give due protection to Malay rights and privileges.

In East Malaysia the Malay minority is generally united behind the Malay/Muslim governments of Sabah and Sarawak, and there is no Malay extremist element of any consequence. During the period of confrontation with Indonesia the Sukarno regime promoted a non-Communist dissident force known as the North Kalimantan National Army (TNKU), built around remnants of a Malay rebel force that had unsuccessfully attempted to take over power in Brunei in late 1962. But most of its members were Indonesians, and after the end of Indonesian hostilities in 1966 the TNKU faded from view.

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ARMED FORCES

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VI. ARMED FORCES

Defense organization

Malaysia's armed forces were established by the British prior to independence in 1957, and their organization and methods have ever since been deeply influenced by the British. Many Malaysian officers and technicians have been trained in Britain, and British officers and technicians have held key positions in the Malaysian forces on a loan basis. Moreover, substantial numbers of British ground, naval, and air forces and smaller numbers of Australians and New Zealanders have been based in Malaysia and Singapore since independence under the Anglo-Malayan Defense Agreement (AMDA). As a result of the protection offered by this pact, Malaysia maintained only a relatively small defense establishment. In the late 1960s, however, the British began withdrawing the bulk of their forces, and on 1 November 1971 the AMDA was terminated. Although a small "ANZUK" (Australia, New Zealand, and UK) force remains in Malaysia and Singapore under the terms of the new Five Power Defense Arrangement, Malaysia must now rely increasingly on its own military resources.

The armed forces of Malaysia consist of the Malaysian Army, the Royal Malaysian Navy, and the Royal Malaysian Air Force, with a combined strength of 50,500. In addition there are some 15,000 men in paramilitary units and about 11,000 in military reserves and home guards. Although the Paramount Ruler has the nominal position of Supreme Commander, actual policy control is vested in a National Defense Council, chaired by the prime minister and including the minister of defense and other key cabinet members. The administrative command extends from this council through the minister of defense and the chief of Armed Forces Staff—the senior military official—to the military commanders of the three services. The National Operations Committee, co-chaired by the chief of the Armed Forces Staff and the inspector general of police, has primary responsibility for the conduct of security operations. This committee coordinates operations in both wings of the country through the general officers commanding in chief in West Malaysia and East Malaysia.

The Malaysian Army, with a current strength of about 42,500, is for the most part a versatile and well-trained force of volunteer professional soldiers. Although well qualified for its internal security mission, its understaffing, lack of trained reserves, and reliance on outside sources for materiel preclude sustained independent operations, particularly against a determined

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outside power. Malaysia's success against the Indonesians during 1963-66, for example, resulted primarily from the support given it by its Commonwealth partners under the AMDA. After the 1969 riots the army was hastily enlarged from 16 to 27 infantry battalions, mostly through the addition of Malay personnel. Despite this increase in numbers, there remains a serious shortage of qualified officers, NCOs, and technicians.

Seventeen of the army's 27 infantry battalions make up the Royal Malay Regiment, which restricts its membership to ethnic Malays. The remaining infantry battalions include some non-Malays, and the logistics and technical support units have even larger proportions of non-Malays.

The Royal Malaysian Navy is a small but efficient coastal force with the primary mission of protecting the country's territorial waters and sea lanes. With only about 3,600 men and 58 minor vessels, it functions mainly as an antismuggling force, but occasionally it cooperates with the ground forces in security operations against the Communist guerrillas. The Royal Malaysian Air Force, with 4,350 men and 108 aircraft (32 jets), is primarily an air transport service for other security forces. Its operational duties have included the transport of airborne forces against the Communist guerrillas near the Thai border and in East Malaysia.

The main paramilitary force is the 12,500-man Police Field Force (PFF) of the Royal Malaysian Police. Organized into 14 lightly equipped mobile battalions and 2 independent companies, it is well trained and effective, and cooperates with the army in counter guerrilla operations. PFF units are also stationed in the southern Thai provinces, where they operate with Thailand's Border Patrol Police against the CTO. Other smaller paramilitary police outfits are the 1,500-man Royal Malaysian Marine Police, with coast guard functions; Federal Reserve Units, which are trained in urban riot control; the Sarawak Border Scouts, composed mostly of Borneo tribesmen who perform border surveillance and intelligence collection functions in the Sarawak interior; and the Senoi Praaq, or Aborigine Paramilitary Force, a small unit of aborigines in West Malaysia who perform functions similar to those of the Sarawak Border Scouts.

Manpower

Military manpower resources are adequate. As of 1 January 1971 the total number of males of military age (between 15 and 49) was estimated at 2,588,000, of which 1,575,000 (61%) were estimated as physically fit for military service. The average number of males reaching military age annually during 1971-75 is estimated at 114,000.

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Morale and discipline are generally high. Pay, allowances, and living conditions are good compared to most Asian countries, and both the military and police have considerable prestige, especially among the Malays. Dissatisfaction, however, exists among the non-Malays, the Chinese in particular, who are discriminated against in promotions and assignments. This discrimination has discouraged non-Malay enlistments and deprives the services of much needed expertise.

Under a National Service Ordinance all male citizens 21-28 years of age inclusive must register for service in one of the military or paramilitary services for tours of up to 2 years. Normally no one is drafted under this ordinance since the number of volunteers is ample. For volunteers the regular term of enlistment is 12 years, of which the last two may be in reserve status.

Economic support, budget, and logistics

Military materiel derives principally from foreign sources, with the UK, Australia, and Canada the main suppliers. Limited quantities of quarter-master equipment and small-arms ammunition are produced locally. Foreign military assistance through loans and grants from 1957 through 1970 amounted to about \$US185 million, 50% of it coming from the UK and 30% from Australia and Canada. The US, New Zealand, and France were lesser sources.

Until 1969 Malaysia's military budget made up about one fifth of the national budget. But stimulated by the 1969 rioting, military spending jumped 40% in 1970 from 1969 levels, moving up to 27.1% of the national budget and 6.6% of the GNP.

Logistics for the defense establishment are coordinated through the Supply Division and Logistics Division of the Ministry of Defense. The former has executive responsibility for procurement and contracts, and the latter is responsible for logistic support of the army and for common use items in all three services. Procurement contracts must be approved by an interministerial Tenders Board. In the case of foreign equipment, proof of local nonavailability must be presented. POL logistics for all services are handled by the army. All POL requirements are met by Shell and Esso refineries at Port Dickson and a Shell refinery at Luton, Sarawak.

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FOREIGN
RELATIONS

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VII. FOREIGN RELATIONS

In foreign affairs Malaysia has pursued an independent course. It has increased its ties with Southeast Asian countries, participated in regional organizations of a nonmilitary nature, and established diplomatic ties with some Communist nations. On the other hand, Malaysia has maintained close ties with the United Kingdom, especially in defense, but also in an intricate network of relations based on trade, investment, and shared social and political values. It has continued similar but less extensive relations with its other Commonwealth partners, Australia and New Zealand. Since the late 1960s, Malaysia has become increasingly concerned over the possible withdrawal of US power from Asia and has stepped up efforts to project an image of nonalignment. Thus it has promoted the concept of a neutralist Southeast Asia protected from outside interference by a joint guarantee underwritten by the United States, the USSR, and Communist China. Malaysia is an active participant in the United Nations and in most of the UN functional organizations.

Malaysia has gradually increased its economic and diplomatic ties with the Communist nations. Formal trade and diplomatic relations with Moscow were established in 1967, and the USSR is a close second to the US as Malaysia's principal rubber market. Since 1967, Malaysia has also established trade and diplomatic ties with most of the East European countries. Relations with these countries remain formal and aloof, however, and Communist officials conduct their business under strict travel and personnel quota restrictions.

The strong emotional attachment to China on the part of most of Malaysia's ethnic Chinese population has made the question of Malaysia's ties with either mainland China or Taiwan a sensitive matter. Although Malaysia went along with the majority in the General Assembly in approving Peking's admission to the UN in 1971, it shows no intention of establishing diplomatic relations with Communist China or with any other Communist Asian country. Moreover, although Malaysia has a fairly high level of trade with China, no trade representatives have been exchanged. Relations with Taipei are limited to a consular exchange.

Despite the close historical and economic relationships of Malaysia and Singapore, relations since separation in 1965 have been reserved and occasionally acrimonious. The currencies were separated in June 1967, tariff restrictions have been imposed, and passports or work passes are necessary for movement between the two areas. Nevertheless, both countries still share

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a strong anti-Communist bias, and, confronted with the end of the Anglo-Malayan Defense Agreement, have welcomed the decision of Australia, New Zealand, and the UK to retain an ANZUK presence in their countries under the new Five Power Defense Arrangement.

Relations with Indonesia have shown a marked improvement since Sukarno's political demise. Basic agreements on trade and economic relations were signed in May 1967, and the following August formal diplomatic relations were resumed and both countries participated in the establishment of the Association of Southeast Asian Nations (ASEAN), a regional body aimed primarily at strengthening economic and cultural relations. During 1968 military cooperation agreements led to a joint effort to control Communist forces on the Sarawak-Indonesian border. In 1969 and 1970, moreover, agreements were signed delineating the territorial seas separating the two nations, with both accepting a 12-mile territorial seas concept.

Relations between Malaysia and the Philippines have been clouded by the latter's long-standing territorial claim to most of the state of Sabah. Because of its claim, the Philippines refused to recognize the legality of the formation of Malaysia in 1963 and severed diplomatic relations. Although relations were resumed in 1966, the public disclosure in 1968 that the Philippines was training special units for infiltration into Sabah resulted in another suspension in relations that lasted until December 1969. The Filipinos have not officially renounced their claim to Sabah, but the issue has been moved to the back burner, and relations are now fairly cordial.

Malaysia's relations with most of its other Southeast Asian neighbors have been reasonably friendly, albeit not particularly close. It has cordial relations with Thailand, and the two countries are cooperating in joint security and intelligence operations against the Communist guerrillas who operate along their mutual border. Thailand has had misgivings about possible Malaysia irredentist aspirations toward its southern provinces, which are populated largely by ethnic Malays and Chinese, but these fears appear to have been largely dissipated. Malaysia recognizes South Vietnam and has provided it with some limited forms of assistance, primarily the training of Vietnamese police units. For a time, Malaysia voiced support of US involvement in South Vietnam, but it has recently muted its expressions of support in accordance with its policy of nonalignment.

Relations with Japan have warmed perceptibly since the immediate post - World War II years, largely as a result of substantial Japanese aid and investment. In fact, Japan has replaced Singapore as Malaysia's primary

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trading partner. Trade also plays the main role in relations with Western Europe, with West Germany an especially important trading partner and a source of some economic assistance and investment.

As a Muslim nation, Malaysia has been moderately active in pan-Islamic activities. It vigorously denounced Israeli occupation of Arab territories in mid-1967, and hosted the International Islamic Conference in April 1969. In 1969, Malaysia was finally accepted as a member of the nonaligned group of Afro-Asian nations at the United Nations, a position hitherto denied it by Sukarno's opposition. Malaysia attended the Third Nonaligned Conference at Lusaka, Zambia in 1970.

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VIII. US INTERESTS

US interests in Malaysia derive from the latter's strategic geographic position on the Strait of Malacca and its role as the world's leading producer of natural rubber and tin, much of which is exported to the US. These products fall short of being of vital importance to the US, however, because of US stockpiles and capabilities to produce substitutes.

US defense commitments and assistance

Malaysia probably regards the US strategic defense shield in the Pacific—particularly the Seventh Fleet—as its first line of defense should a major war erupt. The US has had no direct military involvement in Malaysia, which has relied almost entirely on its defense ties with its Commonwealth partners: the UK, Australia, New Zealand, and Singapore. The US has provided a modest amount of military assistance, however. During the 1946-71 period US assistance totaled US\$23.8 million, mostly in the form of credit sales for aircraft, ammunition, vehicles, weapons, and industrial and miscellaneous equipment. Grant assistance was US\$1.2 million, all of which was used for the training of Malaysian personnel in the US. Proposed assistance for FY 1972 is US\$11.6 million, of which US\$7.5 million is to be in credit sales for vehicles and weapons.

Economic and technical assistance programs

The cumulative total of official US economic assistance to Malaysia (FY 1946-70) was US\$78.4 million. Approximately half of this was in Export-Import Bank and AID loans, and the remainder was in Peace Corps and Food For Peace grants. Estimated US aid for FY 1971 is US\$9.4 million, and projected aid for FY 1972 is US\$4 million.

Investments

US investments, currently estimated at over US\$123 million, are principally in petroleum, forests, mining, and agriculture. The US and Singapore are practically tied as the second largest foreign investor in Malaysia. (The UK is first.) The major US investors in 1968 were Continental Oil Company, Esso Standard, and Uniroyal Plantations.

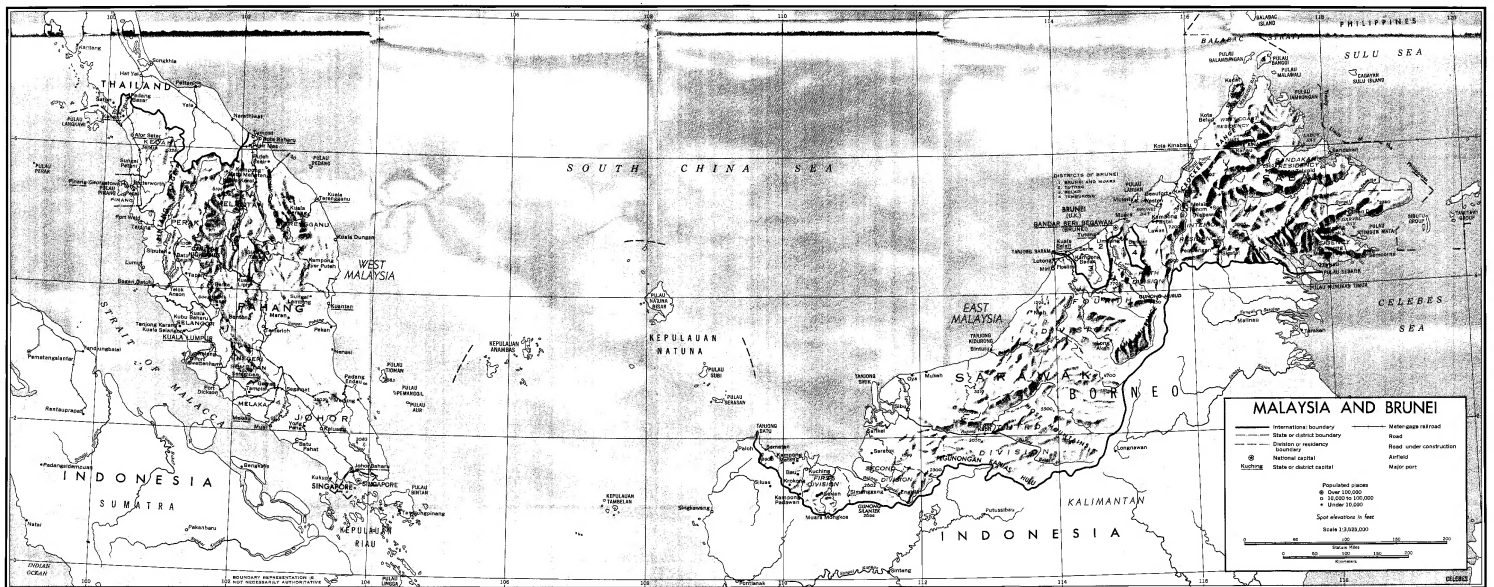
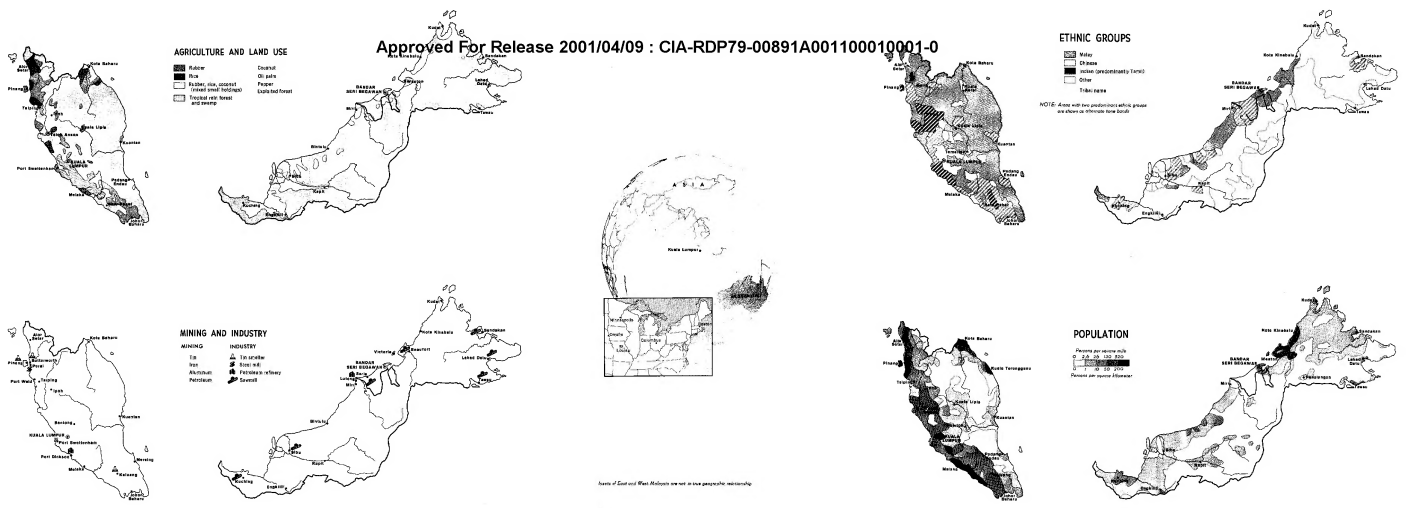
Trade

The US is Malaysia's third largest market for its exports and its fourth largest source of imports. In 1970, Malaysia's exports to the US totaled US\$219 million out of total exports of US\$1,683 million. Imports from the

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US were valued at only US\$122 million out of a US\$1,394 million total. The US balance-of-trade deficit with Malaysia in 1970 was thus US\$97 million. Principal exports to the US are tin (US\$117 million in 1970) and rubber (US\$110 million).



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